

COMPANY RESULTS

Sino Biopharmaceutical (1177 HK)

2023: Results In Line; Expects Revenue Growth To Accelerate In 2024

Sino Biopharm posted flat 2023 revenue growth of 0.7% yoy and a 1.5% yoy rise in adjusted net earnings, in line with our estimates. We expect its newly-launched biosimilar products to support a stronger revenue growth of about 9.7% in 2024. It also targets to launch four new innovative products this year, which will brighten the growth outlook for 2024-26. Upgrade to BUY with a higher target price of HK\$3.80.

2023 RESULTS

Year to 31 Dec (Rmbm)	2H22	2H23	yoy %	2022	2023	yoy %
Revenue	10,832	10,922	0.8	26,026	26,199	0.7
Hepatitis	n.a.	n.a.	n.a.	3,840	3,824	-0.4
Surgery/analgesia	n.a.	n.a.	n.a.	3,440	3,749	9.0
Oncology	n.a.	n.a.	n.a.	9,190	8,801	-4.2
Respiratory system	n.a.	n.a.	n.a.	2,926	2,967	1.4
Gross profit	9,304	9,189	-1.2	21,539	21,210	-1.5
Selling expense	(4,058)	(3,811)	-6.1	(9,809)	(9,193)	-6.3
G&A expense	(717)	(811)	13.1	(1,899)	(1,873)	-1.4
R&D expense	(2,116)	(2,046)	-3.3	(4,164)	(4,403)	5.7
EBIT	2,205	2,314	4.9	5,366	5,439	1.4
Finance expense	(260)	(191)	-26.6	(429)	(495)	15.3
Share of profits and losses of associates/JVs	(656)	(306)	-53.3	(153)	(526)	243.7
Income tax	(125)	(273)	117.5	(697)	(797)	14.4
Net profit to shareholders	623	1,073	72.4	2,544	2,332	-8.3
Adj. net profit to shareholders	1,090	1,112	2.0	2,549	2,589	1.5
Adjusted EPS	0.06	0.06	2.5	0.14	0.14	2.1
Ratios (%)	2H22	2H23	ppt	2022	2023	ppt
GP margin %	85.9	84.1	(1.8)	82.8	81.0	(1.8)
Selling expense as % of revenue	37.5	34.9	(2.6)	37.7	35.1	(2.6)
G&A expense as % of revenue	6.6	7.4	0.8	7.3	7.2	(0.1)
R&D expense as % of revenue	19.5	18.7	(0.8)	16.0	16.8	0.8
OP margin %	20.4	21.2	0.8	20.6	20.8	0.1
Net profit margin%	5.7	9.8	4.1	9.8	8.9	(0.9)
Adj. net profit margin%	10.1	10.2	0.1	9.8	9.9	0.1

Source: Sino Biopharm, UOB Kay Hian

RESULTS

- **2023 revenue and earnings growth within our expectations.** Sino Biopharmaceutical (Sino Biopharm) reported revenue of Rmb26.20b in 2023, up 0.7% yoy. Adjusted net profit attributable to shareholders rose 1.5% yoy to Rmb2.59b in 2023. The results are in line with our estimates. Sino Biopharm declared a final dividend of 3 HK cents/share for 2023. Together with the interim dividend of 2 HK cents/share, the total dividend of the year amounted to 5 HK cents per share, representing a 33% payout ratio.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	26,026.2	26,199.4	28,739.8	31,539.8	34,635.1
EBITDA	6,354.6	6,733.5	7,500.2	8,205.7	9,003.9
Operating profit	5,366.4	5,739.9	6,310.9	6,954.1	7,636.6
Net profit (rep./act.)	2,059.1	2,147.9	2,304.7	2,532.6	2,787.9
Net profit (adj.)	2,064.9	2,404.7	2,804.7	3,032.6	3,287.9
EPS (Fen)	11.1	13.0	15.1	16.4	17.7
PE (x)	25.1	21.5	18.4	17.0	15.7
P/B (x)	1.7	1.7	1.6	1.5	1.5
EV/EBITDA (x)	10.2	9.6	8.6	7.9	7.2
Dividend yield (%)	3.8	1.7	1.7	1.7	1.7
Net margin (%)	7.9	8.2	8.0	8.0	8.0
Net debt/(cash) to equity (%)	5.0	19.2	10.9	6.8	(2.3)
Interest cover (x)	14.8	13.6	14.1	16.0	18.1
ROE (%)	6.9	7.1	7.4	7.7	8.1
Consensus net profit	-	-	3,227	3,687	4,096
UOBKH/Consensus (x)	-	-	0.87	0.82	0.80

Source: Sino Biopharm, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	HK\$3.02
Target Price	HK\$3.80
Upside	+25.7%
(Previous TP)	HK\$3.00

COMPANY DESCRIPTION

Sino Biopharmaceutical is a leading pharmaceutical provider in China. It offers a broad range of drugs in the therapeutic areas of cardio cerebral vascular diseases, hepatitis, oncology, analgesic, respiratory, and diabetic medicines etc.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1177 HK
Shares issued (m):	18,801.2
Market cap (HK\$m):	56,779.7
Market cap (US\$m):	7,255.5
3-mth avg daily t'over (US\$m):	20.1

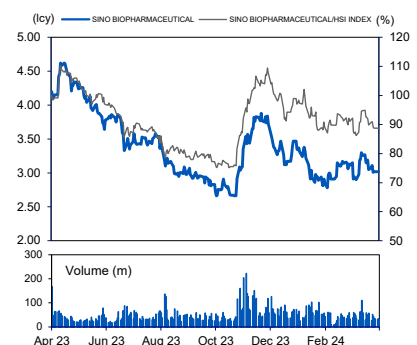
Price Performance (%)

52-week high/low					HK\$4.62/HK\$2.66
1mth	3mth	6mth	1yr	YTD	
(3.5)	(13.0)	6.7	(30.6)	(13.0)	

Major Shareholders

	%
Tse Family	41.4
FY24 NAV/Share (HK\$)	1.72
FY24 Net Debt/Share (HK\$)	0.19

PRICE CHART



Source: Bloomberg

ANALYST(S)

Carol Dou
+852 2236 6749
carol.dou@uobkayhian.com.hk

Sunny Chen
+852 2826 4857
sunny.chen@uobkayhian.com.hk

STOCK IMPACT

- Flat revenue in 2023.** The company posted total revenue of Rmb26.20b in 2023, up merely 0.7% yoy. Oncology drugs reported a revenue decline of 4.2% yoy to Rmb3.8b in 2023. The hepatitis and respiratory segments' revenue was relatively flat from 2022. Revenue of surgery/analgesia medicines increased 9.0% yoy to Rmb3.7b in 2023. We attribute the relatively slow revenue growth was to the significant impact from the COVID-19 outbreak in 1Q23 and anti-corruption campaign in 3Q23. Innovative drugs brought in approximately Rmb9.89b or 37.8% of total revenue in 2023, up from Rmb8.73b or 33.5% in 2022.
- Operating efficiency improved further.** Gross margin stood at 81.0% in 2023, relatively stable vs 2022. Selling expense-to-sales ratio declined further by 2.6ppt yoy to 35.1% and G&A-to-sales ratio decreased 0.1ppt yoy to 7.2%, reflecting an improved efficiency of SG&A resources. Its increasing efforts in new product innovation resulted in R&D expenses rising by 5.7% yoy, which led to a 0.8 ppt increase in R&D-to-sales ratio to 16.8% in 2023. As a result, operating margin improved slightly by 0.1ppt to 20.8%. Adjusted net margin rose 0.1ppt to 9.9% in 2023.
- Expects accelerated revenue growth in 2024.** Management targets an accelerated revenue growth in 2024. We expect its five biosimilars, namely, Anbeisi (Bevacizumab), Delituo (Rituximab), Saituo (Trastuzumab), Taibowei (Adalimumab), and Anhengji (Recombinant Human Coagulation Factor VIII for Injection) will be the key growth drivers and support a relatively faster revenue growth of about 8% yoy in 2024. Moreover, management expects further improvement in operating efficiency by enhancing cost control efforts on marketing and sales activities. In addition, the company will continue to increase investment in R&D, and expects the R&D/revenue ratio to remain relatively flat at about 17% in 2024. We hence estimate its net earnings will steadily increase along with the revenue growth.
- Expects to launch four innovative products in 2024.** Sino Biopharm has 46 innovative drug candidates in R&D pipeline and plans to launch four innovative products in 2024, including TQB2450 (Anti-PD-L1), TQ-B3139 (ALK/c-Met), TQ-B3101 (ROS1/ALK/c-Met), and Liraglutide (GLP-1 analog). Sino Biopharm expects TQB2450 to become one of the important complementary products to Anlotinib. Liraglutide will also become a potential blockbuster for Sino Biopharm in the next few years. The company expects innovative drugs to contribute an increasing proportion of total revenue to 43% in 2024 and 47% in 2025. The expected new product launches brighten Sino Biopharm's growth outlook in the longer term.
- Plans to complete five BD projects each year during 2023-26.** Sino Biopharm targets to complete five business development (BD) project each year to enhance its pipeline and R&D capabilities. According to management, it has recently completed two oncology BD projects in oncology and will actively seek new BD opportunities in other focused areas, such as liver diseases, respiratory system, surgery/analgesia, and cardio-cerebral vascular diseases.

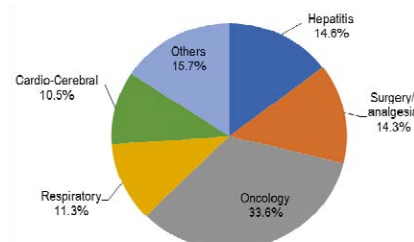
EARNINGS REVISION/RISK

- We revised our revenue growth assumption slightly upward from 8.6% yoy to 9.7% yoy for 2024 to reflect the company's stronger revenue growth outlook compared to 2023.
- Risks include: a) worse-than-expected impact from the anti-corruption campaign, b) possible failure in R&D and new product launches, and c) intensifying market competition.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher target price of HK\$3.80**, based on SOTP valuation, comprising: a) HK\$1.34/share at 8x 2024F PE for existing drugs, and b) NAV-derived pipeline value of HK\$2.46/share (11.0% WACC, 3.5% perpetual growth rate).

2023 REVENUE BY SEGMENT



Source: Sino Biopharm, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	26,199.4	28,739.8	31,539.8	34,635.1
EBITDA	6,733.5	7,500.2	8,205.7	9,003.9
Deprec. & amort.	993.6	1,189.3	1,251.6	1,367.4
EBIT	5,739.9	6,310.9	6,954.1	7,636.6
Total other non-operating income	991.6	991.6	1,000.0	1,050.0
Associate contributions	(525.7)	0.0	0.0	0.0
Net interest income/(expense)	(495.2)	(531.6)	(513.9)	(496.2)
Pre-tax profit	5,710.6	6,770.9	7,440.2	8,190.4
Tax	(797.3)	(1,015.6)	(1,116.0)	(1,228.6)
Minorities	(2,765.5)	(3,450.5)	(3,791.6)	(4,173.9)
Net profit	2,147.9	2,304.7	2,532.6	2,787.9
Net profit (adj.)	2,404.7	2,804.7	3,032.6	3,287.9

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	5,300.9	7,689.7	6,893.6	9,273.4
Pre-tax profit	5,409.9	6,770.9	7,440.2	8,190.4
Tax	(745.0)	(882.4)	(1,054.8)	(1,159.9)
Deprec. & amort.	993.6	1,189.3	1,251.6	1,367.4
Associates	525.7	0.0	0.0	0.0
Working capital changes	(789.9)	669.0	(668.6)	968.1
Non-cash items	(299.2)	(299.2)	(299.2)	(299.2)
Other operating cashflows	205.7	242.1	224.3	206.6
Investing	(4,417.3)	(1,921.3)	(2,100.0)	(2,297.5)
Capex (growth)	(1,974.8)	(2,136.9)	(2,315.6)	(2,513.1)
Investments	818.6	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(3,261.0)	215.6	215.6	215.6
Financing	(2,987.0)	(3,792.9)	(4,010.6)	(4,256.8)
Dividend payments	(2,761.4)	(3,234.3)	(3,469.8)	(3,733.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	2,027.9	(400.0)	(400.0)	(400.0)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(2,253.5)	(158.6)	(140.8)	(123.1)
Net cash inflow (outflow)	(2,103.4)	1,975.5	783.0	2,719.1
Beginning cash & cash equivalent	8,654.8	6,351.4	8,326.9	9,109.9
Changes due to forex impact	(200.0)	0.0	0.0	0.0
Ending cash & cash equivalent	6,351.4	8,326.9	9,109.9	11,829.0

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	8,370.2	9,166.8	10,088.8	11,101.1
Other LT assets	31,429.0	31,735.4	31,948.8	32,162.3
Cash/ST investment	6,351.4	8,326.9	9,109.9	11,829.0
Other current assets	17,454.2	17,645.2	19,533.6	19,851.7
Total assets	63,604.8	66,874.3	70,681.1	74,944.1
ST debt	11,135.9	10,935.9	10,735.9	10,535.9
Other current liabilities	11,470.8	12,352.2	13,547.6	14,807.4
LT debt	1,057.9	857.9	657.9	457.9
Other LT liabilities	1,770.1	2,037.4	2,194.4	2,369.5
Shareholders' equity	30,474.5	31,926.9	33,607.1	35,542.7
Minority interest	7,695.5	8,764.0	9,938.1	11,230.6
Total liabilities & equity	63,604.8	66,874.3	70,681.1	74,944.1

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.7	26.1	26.0	26.0
Pre-tax margin	21.8	23.6	23.6	23.6
Net margin	8.2	8.0	8.0	8.0
ROA	3.4	3.5	3.7	3.8
ROE	7.1	7.4	7.7	8.1
Growth				
Turnover	0.7	9.7	9.7	9.8
EBITDA	6.0	11.4	9.4	9.7
Pre-tax profit	9.5	18.6	9.9	10.1
Net profit	4.3	7.3	9.9	10.1
Net profit (adj.)	16.5	16.6	8.1	8.4
EPS	17.0	16.6	8.1	8.4
Leverage				
Debt to total capital	24.2	22.5	20.7	19.0
Debt to equity	40.0	36.9	33.9	30.9
Net debt/(cash) to equity	19.2	10.9	6.8	(2.3)
Interest cover (x)	13.6	14.1	16.0	18.1

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